GAF Corporation

1984 Annual Report

"It is our firm conviction that corporate stewardship should be judged in no small measure by the degree to which a company's inherent values are realized for its shareholders. I can assure you that we intend to meet that challenge."

—Chairman's letter to shareholders, January 4, 1984

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Financial Highlights

(Thousands of Dollars, Except Per Share Amounts)	1984	1983	1982
Net Sales	**$731,314**	$699,397	$623,236
Income (Loss) From Continuing Operations	**41,046**	(29,199)	12,182
Net Income (Loss)	**56,702**	(3,841)	56,229
Earnings Per Common Share			
Primary:			
Continuing	**2.62**	(2.23)	.64
Net Income (Loss)	**3.70**	(.47)	3.71
Fully Diluted:			
Continuing	**2.30**	(2.23)	.70
Net Income (Loss)	**3.17**	(.47)	3.17
Cash Dividends Per Share			
Preferred	**1.20**	1.20	1.20
Common	**.10**	.05	.50

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Cover

The graphs depict a 10-year history of GAF's earnings per share, return on average equity, and common stock price (as represented in more detail on opposite page), and illustrate the Company's turnaround in 1984.

GAF

GAF Corporation operates one of America's largest specialty chemicals businesses and is a leading manufacturer of building materials. The Company has 3,800 employees in more than 40 plants, research laboratories, and sales offices throughout the United States, and 25 marketing and service facilities abroad which serve customers in 72 countries around the world.

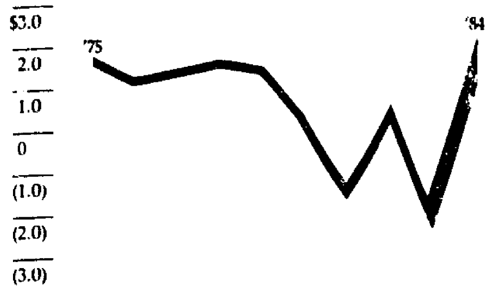
The Company's Chemicals Division manufactures four major groups of products—acetylene derivatives, surfactants, engineering thermoplastics and mineral granules, holding a significant market share in each of these principal product groups. GAF chemicals have a broad range of applications, encompassing such major markets as automobiles, agriculture, pharmaceuticals, hair and skin care products, plastics, oil and gas, textiles, paper and rubber. Overseas, the Company distributes a complete line of pressure-vessel filter systems to most major industries, and through a joint venture manufactures butanediol and tetrahydrofuran in West Germany.

The Building Materials Division is one of the country's major manufacturers of roofing products, including prepared roofing for residential construction and remodeling markets and roofing products for commercial and industrial buildings. Its residential roofing sales are oriented 70 percent to the re-roofing market and 30 percent to new home construction.

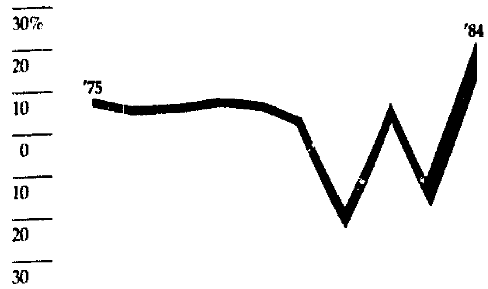
GAF also owns and operates a New York City-based radio station, WNCN-FM, which provides classical music and cultural programming.

GAF Corporation is ranked among Fortune *magazine's 500 largest American industrial corporations.*

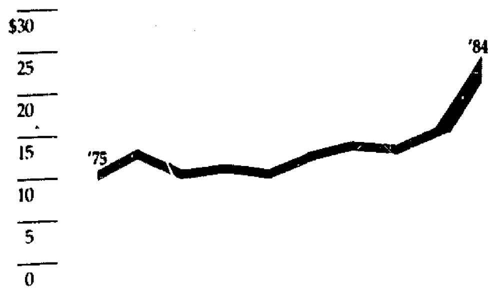
Earnings Per Share



Return on Equity



Common Stock Price



"Earnings Per Share" represents earnings from continuing operations on a fully diluted basis. "Return on Equity" is calculated on the basis of continuing income, after taxes, measured against average balance of shareholders' equity. "Common Stock Price" is GAF's common stock price as of December 31 of each year.

1984—A Dramatic Turning Point for GAF

On December 13, 1983, the Company's new Board of Directors took office after ousting GAF's previous management in a lengthy proxy contest. Samuel J. Heyman was elected Chairman and Chief Executive Officer. As demonstrated by the following chronology, new management promptly took action on a broad range of fronts to accomplish GAF's turnaround.

January 4—Members of senior management meet with security analysts and major shareholders. Mr. Heyman predicts that GAF will turn the Company's Building Materials business profitable in 1984, achieve record earnings for its Chemicals Division, and maximize shareholder values.

In a separate development, the Company announces the closing of three unprofitable Building Materials facilities in New Jersey and Illinois. These closings will reduce excess capacity and stem the Division's losses.

January 9—GAF's Building Materials Division accelerates conversion of its full line of asphalt roofing products from organic felt substrate to glass fiber mat, a move that will reduce manufacturing costs and upgrade product quality.

February 28—GAF announces plan to relocate its corporate headquarters from New York City to the Company's Administrative and Research Center in Wayne, New Jersey. The move is designed to consolidate offices, improve efficiency of operations, and reduce occupancy costs.

March 1—GAF decentralizes corporate structure, thereby enabling the Company's two principal business units to operate with increased autonomy and flexibility. Decentralization, together with staff reductions and plant closings, will allow GAF to reduce number of employees by more than 700 during 1984.

April 11—GAF reports its highest first quarter earnings in four years, posting net income of $13.6 million ($.76 per share on a fully diluted basis) compared with $3.3 million ($.17 per share) a year earlier. Chemicals Division achieves record income for the quarter.

April 30—Management conducts its first Annual Meeting of Shareholders at Chase Manhattan Plaza in New York. Harold C. Simmons is elected to the Board of Directors.

May 4—In a continuing program to prune unprofitable operations, the Company sells its 13 building supply centers for $8.5 million. The sale eliminates drain on profits and underscores the Company's commitment to its independent network of wholesalers.

May 22—James T. Sherwin rejoins the Company as Chief Administrative Officer and is elected Vice Chairman of the Board.

June 1—GAF completes relocation of corporate headquarters to Wayne, New Jersey.

June 1—GAF enters into a $100 million revolving credit agreement with a consortium of eight leading banks.

June 18—Edward E. Shea, a GAF Director, joins the Company as Senior Vice President, General Counsel, and Secretary.

July 17—GAF commences odd-lot repurchase program designed to consolidate shareholder base and reduce cost of annual service.

July 18—GAF reports second consecutive quarter of sharply increased earnings, with net income reaching $15.1 million ($.85 per share) compared with $2.6 million ($.13 per share) a year earlier. Divisional income is at its highest level ever.

July 23—GAF's Board of Directors declares cash dividend on common stock for the first time since the first quarter of 1983.

August 2—Standard & Poor's raises rating on GAF's senior debt and preferred stock by four grades to BB + and three grades to B +, respectively.

August 16—Moody's raises rating on GAF's debt by two grades to Ba-2.

August 29—Building Materials Division completes conversion of roofing production from organic to glass fiber substrate.

September 12—GAF voluntarily reduces revolving credit line to $50 million as a result of Company's turnaround and aggressive cash management program.

October 16—GAF reports sharply increased earnings for the third consecutive quarter, with divisional operating income again at record levels. Net income increases to $13.6 million ($.76 per share) compared with $6.9 million ($.39 per share) a year earlier.

October 19—GAF concludes agreement with Chemische Werke Hüls AG to double butanediol production capacity at their joint-venture chemicals facility in Marl, West Germany.

October 29—GAF announces $95 million worldwide capital expansion program for Chemicals business, which includes plan to increase capacity for production of butynediol and butanediol by more than 40 percent, and other acetylene derivatives by between 30 to 70 percent at GAF plants in Calvert City, Kentucky and Texas City, Texas.

November 5—GAF sells Joliet, Illinois roofing plant—one of three Building Materials facilities closed by the Company in January—for $6.1 million.

December 3—GAF announces $22.8 million capital program for Building Materials business which will double production capacity at the Company's roofing plant at Fontana, California and increase manufacturing efficiencies throughout the Division's plant system. In connection with the Fontana plant expansion, Company secures $6.3 million, long-term, tax-exempt Industrial Revenue Bond financing.

December 31—GAF's common stock closes at $24½, having increased by 47 percent from $16⅝ a year earlier.

1985—Progress Continues at GAF

January 22—GAF calls for redemption 1,138,000 shares of its $1.20 Convertible Preferred Stock.

February 11—GAF announces plan to manufacture modified bitumen, a promising new single-ply roofing system, thereby increasing the Company's commitment to its commercial roofing business.

February 12—GAF reports record earnings for 1984, with net income reaching $56.7 million ($3.17 per share) compared with a 1983 loss of $3.8 million ($.47 per share). Chemicals Division registers record profits, while Building Materials Division is profitable for first time since 1980.

March 14—GAF common stock price reaches $31¼, its highest level in 17 years.

Samuel J. Heyman

Fellow Shareholders:

When I wrote to you in January last year predicting that 1984 would mark a "dramatic turning point" for the Company, little did I envision the full extent of the turnaround we would achieve. And so I am especially pleased to review for you the Company's record of accomplishment in my first year as Chief Executive.

1984 Financial Results

For the twelve-month period ended December 31, 1984, revenues increased from $699.4 million in 1983 to $731.3 million. Division operating profits increased from $30.6 million in 1983 to $90.6 million in 1984. Net income for 1984 was $56.7 million ($3.17 a share on a fully diluted basis), compared with a net loss of $3.8 million ($.47 a share) for the previous year.

Sales for the fourth quarter of 1984 were $166.3 million, compared with $167.7 million for the same period a year earlier. Fourth quarter 1984 net income was $14.4 million ($.81 a share), versus a net loss of $16.6 million ($1.20 a share) for the 1983 period.

The Company's operating results included record-breaking Chemicals profits of $79 million and a turnaround in the performance of our Building Materials Division from a loss of $34.5 million in 1983 to a profit of $10.9 million in 1984. The Company's 1984 performance was favorably influenced by an 11% increase in Chemicals sales and a 6% increase in residential roofing sales, the latter having been achieved despite the closing of three of the Division's manufacturing facilities at the beginning of 1984. Also contributing to the improved performance was an 18% cutback in corporate operating expenses from $22.7 million to $18.5 million and a 44% reduction in interest expense from $16.3 million to $9.1 million.

Significant 1984 Developments

In addition to the Company's dramatic turnaround in its financial performance, GAF's record of achievement in practically its every undertaking was equally impressive. Other parts of this Annual Report chronicle the Company's accomplishments in areas such as cost containment, cash management, conversion of roofing production to glass fiber, relocation of our corporate headquarters, pruning and sale of unprofitable operations, consummation of a multi-year credit arrangement, restoration of the dividend on the Company's common stock, upgrading of GAF's credit rating, implementation of manufacturing efficiencies, programs and strategies designed to increase market penetration for our products, etc. But in this Message, I would prefer to recount several developments which contributed not only to the turnaround in 1984, but are expected to lay the groundwork for sustained earnings growth in the years to come.

Chemicals Business in 1984: Continued Earnings Growth and Capital Expansion

GAF decided this past year to substantially increase the Company's commitment to its Chemicals business. At the core of this determination is our firm conviction that the business continues to offer potential for substantial growth together with consistently high margins of profitability. This judgment is substantiated not only by the impressive rate of increase in the Division's operating profits—from $55.4 million in 1982 to $64.6 million in 1983 (up 17%) to $79 million in 1984 (up 22%)—but also by our expectation for continued strong customer demand for the Company's entire range of chemical products, and especially our acetylene-based product line.

In order to meet this unprecedented demand both in the United States and from overseas, the Division launched during this past year a $95 million expansion program. Scheduled for completion in stages over the next eighteen months, the capital plan calls for capacity increases at two of the Company's domestic chemicals plants at Texas City, Texas and Calvert City, Kentucky and our joint-venture manufacturing operation at Marl, West Ger-

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many. The West German expansion is especially significant in that it will enable GAF to become an even more formidable force in the international arena.

In mapping its expansion strategy, GAF chose to continue a policy, adopted some years ago, favoring the manufacture of its acetylene product line at a number of separate and distinct locations. In so doing, we are now able to draw upon several diverse sources of acetylene, a key raw material in our manufacturing process. Moreover, we believe that this strategic emphasis upon diversification, and its implication in terms of assurance of continuous and reliable acetylene supply, provides GAF with a clear advantage over its competition and will stand us in good stead in future years.

Building Materials Business in 1984: Pruning of Unpromising Operations and Return to Profitability

An analysis of our Building Materials operations, undertaken as soon as new management assumed office, revealed an inherently sound business capable of being returned to profitability—a goal that was in fact attained this past year despite the continued lackluster performance of the industry. One of the factors responsible for the turnaround was the Company's decision to prune the Division's operations with a view toward discarding those which were not only operating unprofitably but offered little promise for the future.

While management's philosophy should not be taken to imply that companies must discard their least promising operations at every turn, we do hold the view that there is little justification for continued investment of capital and executive time and effort in unprofitable businesses, plants, and operations offering scant promise for improvement. Such endeavor is usually about as rewarding as a struggle in quicksand. While closing unprofitable plants or discarding sub-par businesses inevitably penalizes reportable earnings in the near term, we simply will not sacrifice GAF's long-term health and prosperity for the sake of some short-range advantage.

In accordance with this policy, the Company in 1984 closed and/or divested three roofing manufacturing facilities in South Bound Brook and Gloucester, New Jersey, and Joliet, Illinois, its roofing insulation facility in St. Louis, Missouri, and its thirteen building supply centers. By the end of the year, the Company had sold both the Joliet facility and its supply centers and was engaged in active negotiations for the sale of all or part of the remaining three facilities.

Successful implementation of this divestiture program has enabled GAF to eliminate a major, ongoing profit drain, free working capital for the balance of our Building Materials system, and permit maximum production schedules and resulting manufacturing efficiencies at our other eleven facilities. Now that we are in a position to concentrate the Company's efforts and resources on the balance of our Building Materials business, we expect that each of our remaining plants will operate profitably in 1985.

The Corporation in 1984: Transformation of Its Organizational Structure and Corporate Culture

One of the first priorities on management's agenda last year was the reorganization of the Company's highly centralized corporate structure. Under former management, the heads of our two principal operating divisions were given responsibility for the performance of our businesses without the requisite authority and control over critical aspects of their operation. We moved, instead, to decentralize operations by sharply reducing headquarters staff and shifting numerous corporate functions to the divisional level.

This reorganization was crucial to the turnaround and will enable the Company to achieve further improvements in operating performance. Moreover, creation of the two, almost autonomous operating units has injected a more entrepreneurial spirit into the Corporation while at the same time fostering a sense of teamwork, increased coordination between departments, and a bottom-line, profit orientation not witnessed under former management.

It is axiomatic that there is nothing more crucial to the success of a business enterprise than an achievement-oriented corporate culture which fuses its employees with a sense of urgency and purpose. Having inherited a corporate environment heavily influenced by financial reverses, divestitures, salary freezes, and high rates of voluntary turnover, I am pleased to report that we have made substantial progress in transforming GAF's corporate culture.

For by the delegation of increased responsibility to our employees, elimination of bureaucratic procedures, simplification of the lines of authority, elimination of unnecessary functions, creation of an informal and flexible organization, establishment of a prompt and responsive decision-making process, and development of a compensation system where financial rewards are closely tied to both corporate and individual performance, we have created at GAF an exciting and challenging environment. This has enabled management to sharply reduce the rate of voluntary turnover and to attract substantial numbers of outstanding executives to the Corporation. Our success in this area was one of our proudest achievements this past year and augurs well for our Company's future.

Prospects for 1985

While management has made significant progress in addressing the residue of operating problems it inherited, there is still much that remains to be done. Nevertheless, we continue to view this as both a challenge and an opportunity for further improvement. While it is not our practice to issue earnings projections, I can assure you that management is committed to achieving substantial year-to-year earnings increases and, further, that we expect to meet that challenge in 1985.

As for our Chemicals Division, we anticipate another record-breaking year. In this regard, demand for our products continues strong. Moreover, the product shortages in our acetylene chemicals business, which inhibited our albeit excellent 1984 results, are being ameliorated this year as a result of our ongoing expansion program. The Division's granules, surfactant, and engineering plastics businesses continued to expand, and we anticipate that they will be even more substantial contributors to the Division's overall profit performance in 1985.

With regard to our Building Materials Division, 1984 marked its first profitable year since 1980. Moreover, it is worth noting that the turnaround was achieved in the face of another disappointing year for the industry. While the overall housing economy registered a respectable performance in 1984, the roofing materials industry continues to be plagued by overcapacity—which in turn has held prices to 1979-1980 levels, notwithstanding substantial increases in the cost of raw materials, energy, and labor since that time. Nevertheless, based upon our efforts this past year to reorganize the business, contain costs, implement manufacturing efficiencies, and increase market penetration for our products, we remain confident that we can operate at increasingly higher levels of profitability.

There are hopeful signs emanating from the industry as well. In this regard, capacity continues to shrink as GAF, as well as several of its competitors, closed a substantial number of plants in 1984. Moreover, we believe that 1985 will witness further reduction in industry-wide capacity as a result of additional plant closings, mergers and consolidations, and even perhaps withdrawals from the business on the part of one or more of our competitors. Should this trend continue, it will inevitably relieve the downward pressure presently being exerted on prices—thereby enabling the industry to ultimately attain adequate returns on invested capital.

Acknowledgements

GAF's record of achievement over this past year came as a result of the exemplary efforts of so many people, and I am delighted to publicly express my appreciation to all those in the GAF community who contributed to our success.

First in the corporate hierarchy are our Directors. Unlike the case of all too many corporate boards today, our Directors play by no means a passive role nor does their interest and concern about GAF's affairs begin and end with the duration of a Board meeting. Quite to the contrary, each of our Directors has made his own special contribution to the Company. Moreover, the independence of their thought and the wisdom of their advice and counsel have been for me an inestimable source of strength. As Chairman of our Board and its Executive Committee, I thank them all.

And the same goes in extra measure for my fellow employees. Having assumed office after a prolonged proxy contest, we understandably did not know what to expect of those who owed their positions to the former management. But it soon became plainly apparent that GAF is indeed fortunate to have so many able employees who bring to the discharge of their responsibilities not only abundant energy but an overriding concern for our Company's welfare—all as demonstrated by their actions and accomplishments. While I have expressed my respect and affection for our employees so many times over this past year, I am pleased that these pages afford me again the opportunity collectively to communicate my deep appreciation to all of our employees who contributed to the turnaround.

In this same vein, I would express my gratitude to James T. Sherwin, who was elected Vice Chairman of the Corporation in May, 1984. Jim has served GAF in a number of positions of increasing responsibility over the period of the past 23 years, and the depth of his experience, intellect, and vitality have had a profound impact upon the affairs of the Company.

There are, of course, many others who have contributed to GAF's success. They include our customers, suppliers, lenders, and outside professionals, whose steadfast loyalty to our Company in the sometimes difficult periods of its history I pledge will not be forgotten.

And there is a last group whose importance to the Company's achievements I cannot overstate—our shareholders. Although we do business in the corporate form, you should know that we view the relationship with our shareholders as a partnership. In so doing, we regard you as partners and owners and the Company as only a legal form through which our shareholders maintain beneficial ownership in the assets of our business.

When The GAF Shareholders' Committee for New Management began its proxy effort to replace former management in March, 1983, we made clear our commitment to the realization of GAF's underlying values. And when we took office fifteen months ago, I underscored that pledge when I wrote to you as follows: "It is our firm conviction that corporate stewardship should be judged in no small measure by the degree to which a company's inherent values are realized for its shareholders. I can assure you that we intend to meet that challenge."

The record, I believe, speaks for itself. During the fifteen months of our term of office, GAF's market capitalization has increased by more than $250 million—and by more than $375 million when measured from the inception of our proxy effort to the present time! While the Company's achievements in terms of the usual financial measurements—sales, earnings, return on equity, credit ratings, etc.—are a source of satisfaction unto themselves, there is no greater fulfillment for this Chief Executive than to bear witness to the increased shareholder wealth that we have managed to create by our efforts and accomplishments.

On a final note, you should know that I appreciate, more than I can say, your expressions of esteem and support as evidenced by the hundreds of letters we have received from GAF shareholders over the past year. I can assure you that your pride of ownership and the regard you have so clearly demonstrated for our Company serve as ever-renewing stimuli for all of us here at GAF and will inspire us to demonstrate by our actions that we reciprocate your feelings.

Sincerely,

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 18, 1985

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Chemicals

GAF's worldwide specialty chemicals business achieved record-breaking profits in 1984. Division income reached $79 million, a 22% gain over the previous year. Sales increased by more than 10% to $357.2 million. Results in both years include income from GAF's 50 percent-owned foreign chemicals manufacturing and sales company, GAF-Huls Chemie GmbH.

Domestic operating income of $55.3 million in 1984 was more than 30% higher than the 1983 level of $41.6 million. Domestic sales increased by 9% to $260.9 million, resulting primarily from increased market penetration and higher unit sales for all major product lines. International sales in 1984 increased by 13% to $96.2 million, while profits rose to $23.7 million despite the continued strength of the dollar. The overall profit performance of the Division was attributable not only to increased sales but so also to programs designed to enhance raw material efficiency and reduce energy costs.

Carl R. Eckardt
Senior Vice President,
Chemicals Division

The Chemicals Division produces three major groups of specialty chemicals at five domestic facilities—acetylene derivatives and surfactants for markets in 72 countries around the world and engineering plastics for markets primarily in the United States and Canada. A fourth product line, mineral roofing granules, is manufactured at four domestic plants and sold to asphalt roofing manufacturers nationwide, including GAF's Building Materials Division. These pebble-like granules are developed from specially selected rock and quarried, crushed, coated, and heat-processed by GAF into semi-ceramic beads in more than 20 color combinations.

GAF's joint-venture Company in West Germany, GAF-Hüls Chemie GmbH, manufactures butanediol and a derivative tetrahydrofuran (THF), a chemical intermediate and solvent. These products are marketed throughout Europe by both the GAF international sales force and GAF-Hüls. The Chemicals Division also manufactures filter products in Belgium, Brazil, and Canada which are used internationally in the production of pharmaceuticals, cosmetics, paint, food and beverages, and distributes a complete line of pressure-vessel filter systems to major foreign industries.

Capital Expansion, Decentralization, and Streamlining

The Company launched a $95 million capital expansion program last year in order to satisfy increasing worldwide demand for GAF's specialty chemicals. The first phase of the expansion program, completed in December, increased domestic capacity for butynediol and butanediol by more than 40 percent. Butynediol and butanediol are basic links in GAF's growing chain of acetylene-based specialty chemicals and are key building blocks in the manufacture of GAF's growing line of engineering thermoplastics.

Expansions of capacity for GAF's entire acetylene derivative line have now been completed in a second phase of the capital plan at the Company's Texas City, Texas and Calvert City, Kentucky plants, and include:

- a 30% increase for butyrolactone, a solvent and intermediate product for agricultural chemicals;
- a 70% increase for N-methyl-2-pyrrolidone, a non-toxic solvent utilized in the agricultural, petroleum, plastics and electronics industries; and
- a 45% increase in cross-linked polyvinylpyrrolidone, a polymer used as a clarifying agent for beer, wine and fruit juices and as a tablet disintegrant in pharmaceuticals.

In connection with the Calvert City expansion, the Company entered into a new raw materials supply contract which, together with existing agreements, will provide ample quantities of acetylene well into the next decade.

A third phase of the program, consisting of a doubling of capacity for butanediol production at the Company's joint-venture facility in Marl, West Germany, is expected to be completed by mid-1986. Chemische Werke Hüls AG, GAF's joint-venture partner and a

Large photo (right): Calvert City, Kentucky chemicals plant.

Inset photo (right): left to right – Raymond W. Smith, Vice President, Marketing; Richard B. Olsen, Vice President, Finance; Dr. William J. Burlant, Vice President, Research & Development; Robert F. McCarthy, Vice President, Manufacturing; and Abraham Lindenauer, Vice President, Materials Management.

major European producer-supplier of acetylene, will provide feedstock for this expanded production.

As part of the Company's decentralization program, a new management team has been organized to oversee the Chemicals Division's development and future growth. The group, headed by Senior Vice President Carl R. Eckardt, includes: Dr. William J. Burlant, Vice President, Research and Development; Abraham Lindenauer, Vice President, Materials Management; Robert F. McCarthy, Vice President, Manufacturing; Richard B. Olsen, Vice President, Finance; and Raymond W. Smith, Vice President, Marketing.

In order to streamline its international operations and contain costs, GAF consolidated several of its wholly-owned Scandinavian subsidiaries into GAF Norden in Stockholm, Sweden and replaced its GAF Israel operation with a distributorship. This restructuring will enable GAF to continue to serve its customers with the same high level of performance.

Acetylene Derivatives

One of the fastest growing products in recent years, among the more than 70 different acetylene derivatives manufactured by GAF, is its super-safe solvent, M-Pyrol® Sales increased in 1984 as demand from major petroleum refining companies continued to strengthen because of the product's capability of achieving greater cost efficiency and environmental safety in the extraction of automotive lubrication oil. By year-end, more than 80% of the lube oil extraction units formerly using phenol solvent had converted to M-Pyrol, thereby resulting in dramatic worldwide sales growth. M-Pyrol has also begun to replace Furfural, another widely used extraction solvent.

M-Pyrol, produced at Texas City and Calvert City, is used extensively by the electronics industry for removal of epoxy resins during the manufacture of electronic microchips and in connection with the production of reliable, precisely etched components. Additional growth for GAF's M-Pyrol is expected as a result of action taken by the United States Environmental Protection Agency in 1984 granting the solvent exempt status for use in agriculture, a market requiring improved safety characteristics for products used in herbicides, pesticides, insecticides, and fungicides.

Worldwide demand for Gafquat® polymers in the haircare industry continued to increase due to its superior performance features. An example of their wider application is the use of Gafquat in styling foams such as mousses, one of the most versatile and popular haircare products to reach the market in more than a decade.

Sales of V-Pyrol® used in the manufacture of viscosity-improving additives for premium motor oils, increased substantially as motorists continued to seek ways to extend the life of their cars. This acetylene-based product is also gaining wider acceptance for use in radiation curing in the publishing industry (especially by high-quality printers of books and magazines), where it permits ink to dry in microseconds under the influence of ultra-violet or electron beam radiation. A similar process is being used increasingly by furniture manufacturers to apply decoration to wood and other surfaces.

Increased use of Plasdone® excipients reflects yet another significant market penetration for the Company's products in the pharmaceuticals industry. Plasdone excipients are employed as binders for drug and vitamin tablets and injectables by both the medical and veterinary markets. New transdermal injection devices utilize Plasdone excipients to provide constant, time-released medication designed to take effect over long periods of time.

Sales to major, worldwide drug manufacturers of Polyplasdone® disintegrants, primarily for use in tablets, also increased in 1984. Polyclar AT® a stabilizer and clarifying agent used in the production of beer, wine, fruit juices and other beverages, continued to increase its market penetration in 1984.

GAF has made a significant commitment to research and development in 1984.

Large photo (left): Texas City, Texas chemicals plant.

Inset photo (left): GAF specialty chemicals are used in the production of textiles, pharmaceuticals, agricultural chemicals, cosmetics and personal care products, electronics, metals, beverages, paints and coatings, pulp and paper, oil and gas, cleaning products, and many plastic components.

Production capacity for Polyplasdones and Polyclar was increased by 45% this past year in connection with the expansion of the Company's plant in Calvert City, Kentucky.

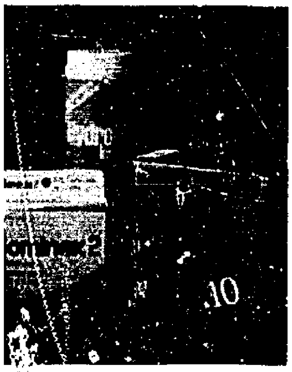
Surfactants

Sales of surfactants increased substantially in 1984, notwithstanding intense competitive pressures. This strong performance reflected gains not only in established products but the successful development of new, specialized applications for the Division's surfactant line.

GAF's surfactants include the Igepal® series of alkylphenol ethoxylate nonionic surfactants and the Alipal,® Gafac,® and Igepon® series of anionic surfactants. Alipal and Igepal surfactants are being increasingly utilized in the production of latex bases for paint, adhesives, paper, and other specialty coatings, while Gafac phosphate esters have achieved greater market acceptance as corrosion inhibitors in coatings. A high-level of demand continued for Igepal and Gafac as resin emulsifiers for the pulping and bleaching process in the pulp and paper industry, a longtime market for GAF surfactants.

Surfactants in the Igepon line are being used increasingly in cosmetics, as that industry continues to emphasize low-irritation, high-performance products. Igepon AC-78 is a widely used product among manufacturers of low-irritation synthetic soap bars and other new toiletry products. Alipal HF-433, a new high-performance, low-cost surfactant is also expected to penetrate the cosmetics market as a superior alternative to commodity products now being utilized.

Demand for GAF's surfactants remained strong last year in the household cleaner, agricultural chemical, textile, oil drilling, sanitizer, and metal cleaning industries. Sales of carbonyl iron powder, which is used in the electronics, powder metallurgy and defense industries, also increased substantially.



ylene derivatives are ients in a variety of utical products.

Engineering Plastics

GAF's thermoplastic business has experienced rapid growth since its inception in 1977. In fact, 70 percent of the Company's present PBT engineering plastic product line has been developed in the last four years, thereby enabling GAF to become one of the nation's leading producers of PBT thermoplastic polyester resins.

GAF produces special-purpose Gafite® alloys, blended polymers which can be employed in rugged applications and yet provide smooth attractive finishes. Several examples of these applications include computer keyboards and housings for office equipment and appliances. The Company has developed other "alloying" resins, combining polymers with organic materials to achieve unusual grades of plastic which resist extreme temperatures, high impact, corrosion, and warping.

Gaftite LW (Low-Warp), formulated to accept paint as readily as metal, is used in large exterior automotive parts such as window bezels, cowl vents, spoilers, and headlight housings. Gaftuf,® a modified thermoplastic polyester, is utilized in automotive components which clamp brake and fuel lines to the frame and as connectors between windshield wiper sleeves and wiper arms. Gaftuf is replacing metals and other engineering plastics in such demanding applications as housings for power tools and electronic pin connectors for geophysical exploration, the main advantage of the latter application being its ability to withstand long-term exposure to the elements as well as repeated punishment from heavy oil field equipment. In addition, flame retardant grades are used in industrial electrical junction boxes.

Demand continued to increase in 1984 for Gaflex® thermoplastic polyester elastomer, a material that resists fatigue, corrosion and temperature extremes. These elastoplastics are being utilized increasingly as seals for industrial machinery, flexible telephone cords, hydraulic tubes, and insulation for communications wire and cable. Currently, special grades of

Gaflex are being evaluated in the automotive industry as rubber replacements for rugged components such as protective, accordion-like boots for exposed moving joints in cars and trucks.

Expansion of butanediol capacity underway at Calvert City will enable GAF to keep pace with the substantial growth now projected for its PBT engineering thermoplastics.

Mineral Granules

Sales of mineral granules increased during the past year as GAF improved its market share. To capitalize on the ever-increasing potential for this business, the Division is expanding production capacity at its Blue Ridge Summit, Pennsylvania and Annapolis, Missouri plants. Completion of the expansion program is scheduled for the second quarter of 1985 and will enable GAF to better serve its customers in the South and Southwestern regions of the country.

The Division's granules business continued to benefit from the current trend among roofing manufacturers to convert production to glass fiber substrate, as the glass product requires more granules per unit of asphalt roofing. In addition, the increased popularity of heavyweight, three-dimensional shingles which simulate wood, such as GAF's premium Timberline® shingle, has operated to increase granule demand in that they require 30 percent more granules than lower-cost, commodity shingles.

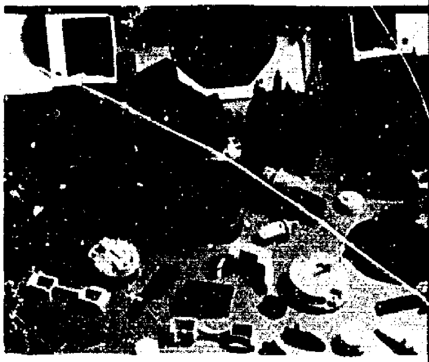
Research and Development

GAF's new management this past year substantially increased the Company's commitment to its research and development effort. Important steps in this direction included the hiring of Research Director Dr. William J. Burlant, as well as a substantial number of additional research scientists, and the acquisition of state-of-the-art equipment for chemical analysis, pilot studies, and materials application development. This increased commitment will enable the research and development group to further improve the Company's already strong position in markets such as pharmaceuticals, cosmetics, electronics, and automobiles.

Significant projects now in progress include those in the following areas:

- additional controlled-release systems and solvents for pharmaceuticals
- new classes of polymers for cosmetics and hairsprays
- improved ingredients for personal care products with unique surface chemistry
- new emulsifiers designed for the paint, coatings and adhesives markets
- advances in conductive plastics with tailored properties to capitalize on the electronics boom
- new solvents for sprays used in the agricultural market
- new uses for GAF surfactants in the treatment of certain diseases
- new surfactants with improved corrosion resistance for the petroleum and energy industries
- low-temperature detergents designed to reduce energy costs in metal cleaning

An Advanced Technology and Materials Group was established during the year to perform government-funded research in the areas of electronic chemicals, magnetic materials, multispectral smoke, and organic imaging materials. The Group's activities include the development of: carbonyl iron powders for use as an adsorber of radar signals and for application in electronic shielding; GAF's electron beam resist which permits manufacture of high-density integrated microchip circuitry in the half-micron range; and copolymers with unique encapsulating properties for decontaminating surfaces exposed to radioactive or biological materials.



GAF's engineering thermoplastics are used to produce a wide range of components for automobiles, electronics, and other applications.

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The Building Materials Division returned to profitability in 1984, with Division income reaching $10.9 million compared with losses of $34.5 million and $26.3 million in 1983 and 1982, respectively. The 1984 results represent the Division's best performance since 1980. Sales in 1984 were $370.8 million compared to $373.2 million in the previous year.

The turnaround was attributable to GAF's renewed commitment to the roofing materials business, together with an increased emphasis on marketing, expanded product lines, and modernized, more efficient production. Moreover, the Division's performance is particularly significant in view of the fact that the industry's pricing structure remained intensely competitive as a result of production overcapacity. The Division's recovery in 1984 was further aided by the closing of three manufacturing plants and the sale of its 13 building supply centers during the year.

John A. Brennan
Senior Vice President,
Building Materials Division

As part of the Company's move to decentralize operations, the Building Materials Division has formed a newly organized management team headed by Senior Vice President John A. Brennan, and including Salvatore C. Bellini, Vice President, Finance; Richard C. Liden, Vice President, Marketing; Donald T. Shirley, Vice President, Operations; and Thomas J. Zickell, Vice President, Manufacturing.

Capital Expansion Program

The Company launched a $22.8 million expansion program in 1984 to increase production capacity at its Fontana, California plant and achieve improved manufacturing efficiencies at all 11 of the Division's production facilities. The Fontana expansion, when completed in 1986, will effectively double the facility's existing capacity.

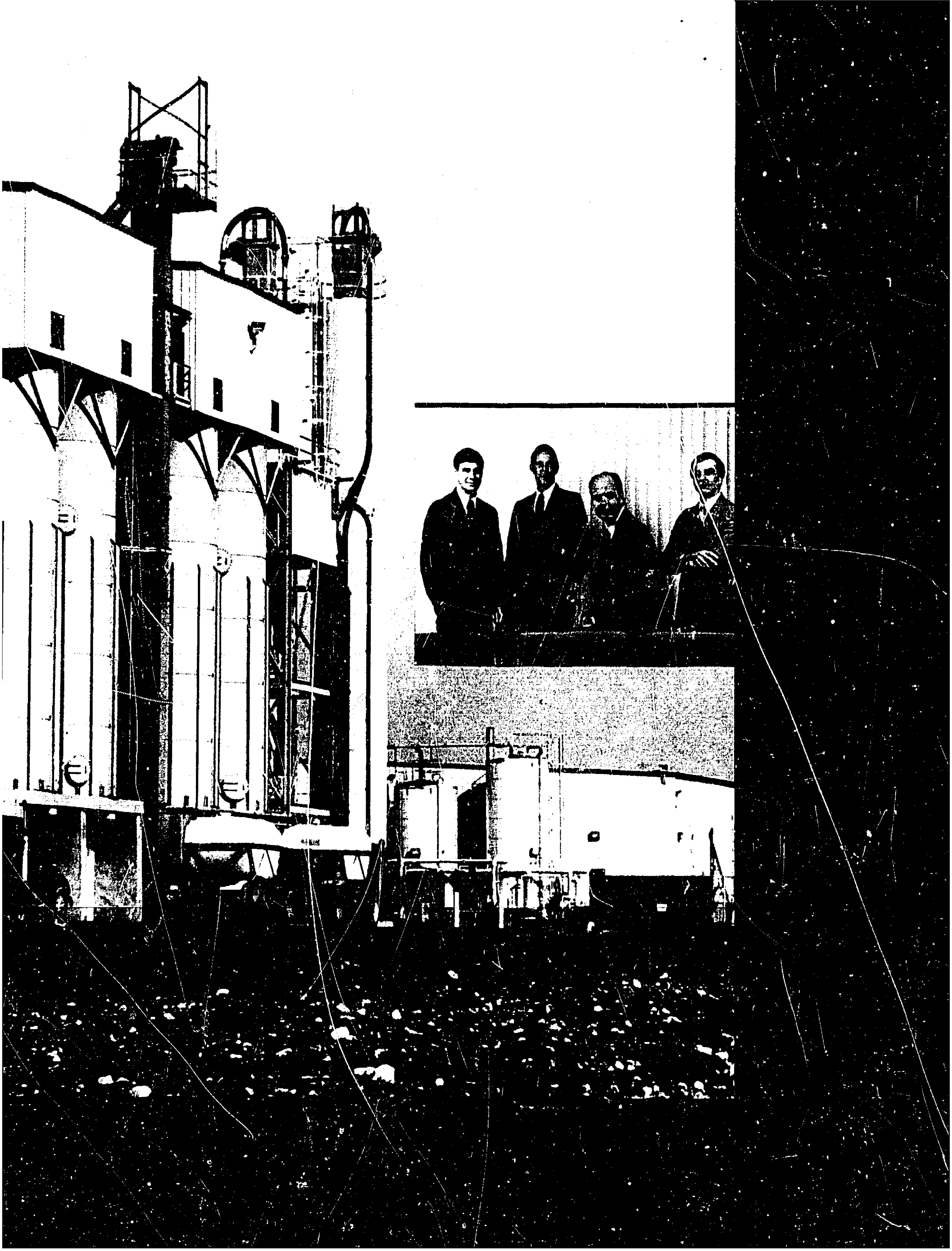
In February, 1985, the Company announced plans to manufacture modified bitumen, an asphalt-based, single-ply, commercial roofing system developed originally in Europe. This exciting new product will be manufactured at the Company's Mount Vernon, Indiana manufacturing facility, and is scheduled for introduction into the market in the first quarter of 1986. This latest addition to GAF's commercial roofing product line will offer the advantages of improved flexibility at wide temperature ranges, ease of application, and cost-efficiency.

Conversion to Glass Fiber Roofing Production

In January, 1984, GAF accelerated conversion from organic felt to glass fiber mat substrate at all of its roofing plants. This move enabled the Building Materials Division to close all but one of its organic felt machines while at the same time increasing glass mat production at its Chester, South Carolina mat facility. Glass-based roofing products substantially reduce consumption of asphalt and energy while at the same time cutting manpower requirements and the costs of shipping. In addition, they offer homeowners a Class A Underwriters Laboratory fire rating and a longer useful product life.

Large photo (right): GAF's Fontana, California roofing products facility.

Inset photo (right): left to right – Thomas J. Zickell, Vice President, Manufacturing; Donald T. Shirley, Vice President, Operations; Richard C. Liden, Vice President, Marketing; and Salvatore C. Bellini, Vice President, Finance.



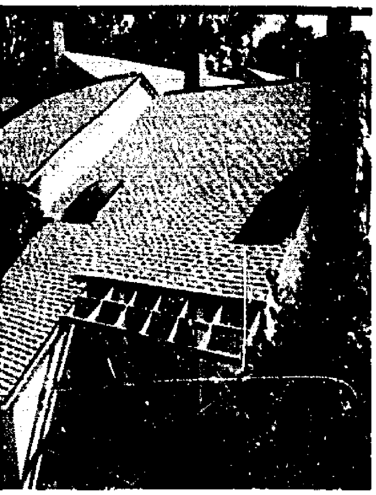
Residential Roofing

Lower interest rates and the growth of the secondary mortgage market as a prime source of new home mortgage capital helped to accelerate the pace of home construction in 1984, especially in the South and Southwest. In response to the resurgence of housing activity, GAF expanded its sales of quality, laminated shingles.

In this connection, Timberline® GAF's premium roofing product, enjoyed sharply higher sales in 1984 in all parts of the country. Timberline shingles are a three-dimensional, laminated roofing product offering a Class A fire rating and a 30-year warranty. The product has gained increased acceptance as a replacement for wood shake shingles, particularly in arid parts of the country such as Texas and California where stringent fire codes impose strict requirements. At the same time, more homeowners are switching to Timberline replacement roofing products to improve the appearance of their homes and enhance the value of their property.

In response to the growing trend to more attractive, durable heavyweight residential shingles, GAF developed its newest asphalt roofing product, Royal Sovereign® This exciting new product is designed to capitalize on the emerging "middle market" for quality roofing shingles at a just slightly higher price than standard shingles. GAF began marketing Royal Sovereign in 1984, and by year-end this new high-performance, designer-created product, with its wide range of color combinations and 25-year warranty, had substantially outperformed initial sales projections. Furthermore, its shipping weight/sales price ratio will enable GAF to penetrate more remote markets than before.

The Company launched toward the end of the year the GAF Finance Program—an innovative, new plan enabling roofing customers purchasing GAF products to obtain prompt and easy home improvement loans on competitive terms. The program's initial results have been encouraging not only in terms of its positive and immediate impact on sales but also because it has enabled GAF to strengthen its identification among homeowners and enhance its relationships with roofing contractors throughout the country.



Demand is growing in all parts of the country for Timberline® GAF's premium, three-dimensional heavyweight roofing shingle.

Commercial Roofing

Sales of GAF's roll roofing for commercial applications increased substantially in 1984. With the planned increase in production capacity at the Fontana facility, GAF expects to further expand its share of the market in the coming years. Demand for Gafglas® Ply 4 also increased dramatically as a result of contractors' preference for both its superior handling characteristics and its in-place performance.

During the past year, GAF introduced another new Super Systems roofing accessory product, #75 Gafglas® Base Sheet, an asphalt-coated glass fiber product utilized as an underlayment for large, flat commercial roofs.

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Radio station WNCN (104.3-FM), New York, GAF's classical music radio station, registered another improved performance in 1984. Operating income rose to $713,000, a 33% increase over the preceding year. Sales, aided by a substantial increase in retail advertising, were up 11% over 1983.

The station's new marketing theme, "The Good Life," underscored its increased emphasis on reaching upscale listeners. This new theme, together with the high disposable income which characterizes WNCN's listener audience, continued to attract increased business from major advertisers. During the year, the station won *Billboard* magazine's prestigious "Radio Station of the Year" and "Program Director of the Year" awards for 1983.

Other 1984 highlights included:

- WNCN became the first radio station in the United States to broadcast a full week of programming on digital, laser-read compact discs.
- WNCN produced, for the second consecutive year, the nationally syndicated Classical Grammy Awards program which was aired over the Mutual Broadcasting System network. Hosted by opera star Beverly Sills and commentator Martin Bookspan, the program was heard on more than 150 radio stations nationwide.
- WNCN continued to originate weekly live concerts from its own performance studio and broadcast some 150 recorded concerts, including performances from the Waterloo Festival in New Jersey, the Caramoor Festival in New York's Westchester County, and the 92nd Street "Y" in Manhattan.
- WNCN became the only New York station to be represented by Concert Music Broadcast Sales, the nation's sole all-classical sales representative, and was named flagship station of the Concert Music Network.
- WNCN was selected as the New York area outlet for the new, nationally syndicated series, "AT&T Presents Carnegie Hall Tonight" hosted by actor John Rubinstein.

Subscriptions to Keynote magazine, the station's program guide and music forum, increased during the year as a result of newly implemented newsstand sales.

WNCN, GAF's classical music radio station, is operating under the leadership of general manager Matthew Field.

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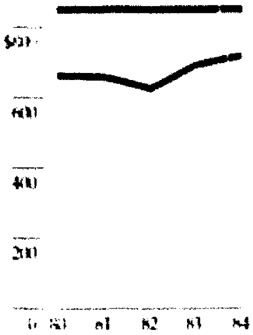
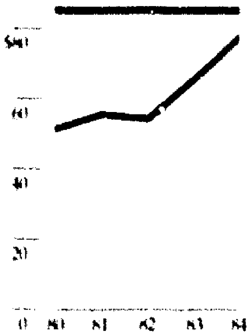
GAF's Financial Summary

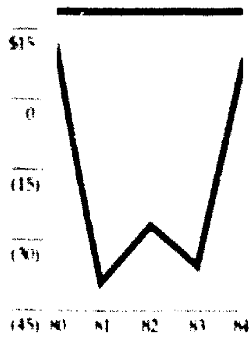
Sales



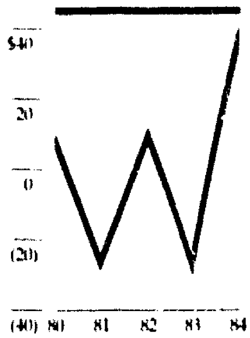
Chemicals Income



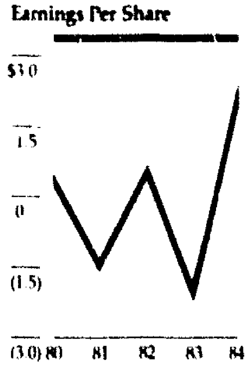
Building Materials Income



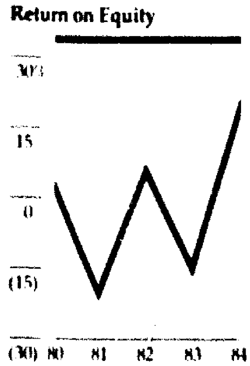
Net Income



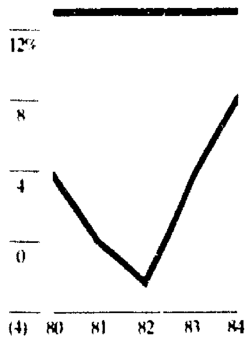
Earnings Per Share



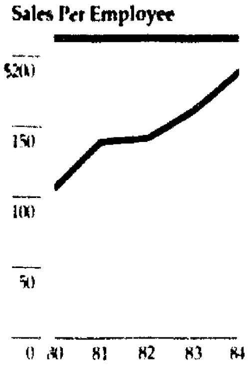
Return on Equity



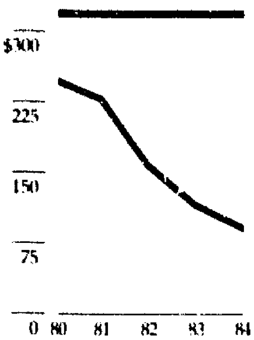
Operating Income as % of Sales



Sales Per Employee



Total Debt



"Net Income" represents income (loss) from continuing operations. "Earnings Per Share" represents earnings from continuing operations on a fully diluted basis. "Return on Equity" is calculated on the basis of continuing income, after taxes, measured against average balance of shareholders' equity.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

When GAF's new management took office in December 1983, it established as its prime objective the prompt realization of the Company's underlying values. As a result of strategic programs implemented early in the year, the Company experienced a dramatic turnaround in 1984. With the turnaround now accomplished, management has shifted its primary focus to the enhancement of revenues and strategies designed to lay the groundwork for sustained future earnings growth.

While the Company's financial condition improved in the years 1981-1983, this was primarily attributable to a restructuring program that resulted in the sale of several of the Company's businesses and benefits derived from the reversion of a total of $65.2 million in residual assets of the terminated Retirement Plan for Salaried Employees. On the other hand, the improvement of the Company's financial condition in 1984 came about as a result of improved cash flow from operations.

As shown on the Consolidated Statements of Changes in Financial Position, the Company's cash flow from continuing operations in 1984 was approximately four times greater than the total reported in 1982 and 1983. In addition, the Company experienced a cash inflow from working capital items in 1984 of $24 million, as compared with cash outflows of $9.5 million in 1983 and $20 million in 1982, resulting from improved cash management practices and tighter controls over inventory levels. The working capital ratio increased to 2.23:1 in 1984 from 1.73:1 in 1983 while total working capital increased $47.5 million (51%) to $140.7 million.

The Company's cash position increased nearly three-fold in 1984 to $70 million. Increased cash flow during the past three years has enabled the Company to reduce its total debt level from $233 million at December 31, 1981 to the current level of $89.2 million, a 62% decrease. At the same time, the ratio of debt to debt plus equity, which was 63.4% at December 31, 1981, dropped to 47.5%, 41.3% and 29.4% at December 31, 1982, 1983 and 1984, respectively. This reduction in debt levels has had the added benefit of lowering interest expense. Interest expense for 1984 of $9.1 million was 44% lower than last year's $16.3 million and was less than one-half of the 1982 expense of $20 million.

As a further indication of the Company's improved financial condition, Standard and Poor's and Moody's significantly upgraded GAF's credit ratings in the third quarter of 1984. Standard & Poor's raised the ratings on GAF's senior debt and preferred stock by four grades to BB+ and three grades to B+, respectively, while Moody's raised its rating on GAF's debt by two grades to Ba-2.

The Company in 1984 entered into a $100 million revolving credit facility with a consortium of eight banks, effective as of June 1, 1984 and terminating December 31, 1986. However, as a result of improved cash flow, the Company in the third quarter voluntarily reduced this credit facility to $50 million. Between mid-September and December 31st, the Company did not borrow against this facility and, in fact, was in an investment mode. The revolving credit agreement includes restrictions on the payment of dividends on GAF common stock, capital expenditures and funded debt, and requires the maintenance of minimum working capital and net worth. The Company also has additional short-term lines of credit, of which approximately $12.6 million was unused at December 31, 1984.

The Company restored the cash dividend on its common stock in the third quarter of 1984 after not paying such dividend since the first quarter of 1983. Cash dividends of five cents per share were declared in July and October of 1984 and in January, 1985.

The Company in the third quarter of 1984 repurchased 233,073 shares of common stock and 27,272 shares of preferred stock at an aggregate market value of $5.6 million. These shares have been taken into Treasury and will be used in connection with employee stock purchase and stock option plans.

In January, 1985, the Company called for redemption 1,138,000 shares of the $1.20 convertible preferred stock at the redemption price of $27.50 per share plus accrued dividends of $.24 per share from January 1, 1985 through the redemption date of March 13, 1985. Holders of shares called for redemption have the right to convert to common stock at any time prior to the close of business on the redemption date.

Capital expenditures in 1984 were $17.9 million compared with $13.9 million in 1983. They are expected to exceed $40 million in 1985. The Company, in the fourth quarter of 1984, announced a $118 million capital expansion program to be completed in stages over the next two years. The bulk of the expansion, at a cost of $95 million, will increase capacity at two of the Company's domestic chemical plants and at a joint venture manufacturing operation in Marl, West Germany. The remaining $23 million of the program will be expended to increase capacity at the Fontana, California roofing plant and for new equipment at other building materials plants.

The capital program will be financed principally through internal cash flow, with financing for the Fontana expansion coming from $6.3 million in tax-exempt revenue bonds. At the end of the year, the Company had commitments of $8.0 million for approved capital expenditures. Commitments under various capital and operating lease obligations are detailed in Note 10 to Consolidated Financial Statements.

Results of Operations

GAF experienced in 1984 the highest earnings in its history, both in terms of net income and income before extraordinary credits. The $41 million income before extraordinary credits was 26% higher than the previous high set in 1974. Operating income from the Chemicals Division reached the highest level in Company history, while the Building Materials Division recorded its first profitable year since 1980. Total division income for the year nearly tripled to $90.6 million, reflecting record Chemicals profits of $79 million and Building Materials' $45.4 million turnaround to a profit of $10.9 million.

Consolidated sales, which had decreased over 7% in 1982, increased $76.2 million (12.2%) in 1983 and another $31.9 million (4.6%) in 1984. Chemicals sales increased $34 million (10.5%) in 1984 after a $28.8 million (9.8%) increase in 1983, reflecting higher unit sales in all major product lines. Building Materials sales in 1984 fell slightly to $370.8 million, after a $44.4 million (13.5%) increase in 1983 to $373.2 million. While the 1983 increase reflected a rebound in sales volume from the depressed industry conditions in 1982, the 1984 decrease reflected the closing of three plants in January, 1984, and the sale during the year of the Division's 13 building supply centers.

Consolidated operating income for 1984 of $62.2 million represents an increase of more than 123% from last year's $27.8 million and a $76.8 million turnaround from a loss of $14.6 million in 1982. Gross margins, which were 16.8% and 20.7% in 1982 and 1983, respectively, increased to nearly 25% in 1984 as a result of newly implemented cost control measures.

The Chemicals Division reported record high profits in 1984 of $79 million, a 22% increase over the previous high of $64.6 million for the year 1983 which, in turn, was 16.6% higher than the 1982 results. Operating margins in 1984, 1983 and 1982 were 22.1%, 20% and 18.8%, respectively. The Division continued to show an increasingly high pretax operating return on assets, with a return of 38.8%, 32.6% and 27.7%, respectively, for the years 1984, 1983 and 1982.

The Chemicals Division's performance resulted from continued cost cutting and higher unit sales in all major product lines. The Division's international operations, despite the adverse effect of the strong dollar, continued to report higher sales and improved profits. International sales increased 12.7% in 1984 after an increase of 10.2% in 1983, while profits, which include GAF's 50% equity in its joint venture manufacturing operation, increased 3% in 1984 and 25% in 1983 as compared with 1982.

The Building Materials Division recorded a profit in 1984 of $10.9 million after three consecutive years of heavy losses. The loss in 1983 of $34.5 million included a $26.1 million provision for plant shutdown costs. The Division's performance in 1984 was aided by a six-percent increase in residential roofing sales, increased emphasis on the implementation of manufacturing efficiencies, the closing of three unprofitable plants in January, 1984, and the effect of full conversion from organic to glass fiber roofing production. This turnaround was achieved despite another disappointing year in the building industry in which selling prices, due to overcapacity in the industry, were held to 1979-1980 levels. However, due to the programs implemented by the Company in 1984, management expects this business to operate at increasingly higher levels of profitability in the coming years.

Corporate operating expenses, which decreased $6.7 million (22.8%) in 1983 as compared with 1982, were reduced another $4.2 million (18.5%) in 1984. This decrease was attributable to staff reductions, decentralization of operations and relocation of the Company's corporate headquarters. The effects of the programs implemented in 1984 will carry over into 1985 and are expected to result in further reductions in corporate overhead expenses.

The Company's results in both 1983 and 1982 were affected by several nonrecurring factors. The prolonged 1983 proxy contest resulted in a charge to operations of $10 million ($.70 per share—primary). Net income in 1982 was favorably affected by proceeds from sales of tax benefits, settlement of two lawsuits with Eastman Kodak and reversal of reserves related to the terminated Retirement Plan for Salaried Employees. Total income from these items amounted to $30.1 million ($2.10 per share—primary), or 53% of the Company's total 1982 net income.

For a review of the effects of inflation on the Company's financial statements, see Supplementary Data-Financial Reporting and Changing Prices.

Review of Consolidated Financial Information

Summary of Selected Financial Data
(Millions of Dollars, Except Per Share Amounts)

Year Ended December 31	1984	1983	1982	1981	1980
Net Customer Sales					
Chemicals	**$357.2**	$323.2	$294.4	$300.8	$284.4
Building Materials	**370.8**	373.2	328.8	371.7	392.8
Broadcasting	**3.3**	3.0	—	—	—
Consolidated Sales	**731.3**	699.4	623.2	672.5	677.2
Division Income (Loss) Before Income Taxes					
Chemicals	**79.0**	64.6	55.4	55.9	50.8
Building Materials	**10.9**	(34.5)	(26.3)	(38.6)	13.7
Broadcasting	**0.7**	0.5	—	—	—
Total	**90.6**	30.6	29.1	17.3	64.5
Income (Loss) From Continuing Operations	**41.0**	(29.2)	12.2	(28.2)	10.3
Earnings (Loss) Per Common Share—					
Continuing Operations: Primary	**2.62**	(2.23)	.64	(2.24)	.50
Fully Diluted	**2.30**	(2.23)	.70	(1.57)	.50
Dividends Per Common Share	**.10**	.05	.50	.80	.77
As of December 31					
Current Assets	**$254.9**	$220.9	$212.4	$337.3	$482.7
Current Liabilities	**114.2**	127.7	123.4	179.6	330.6
Working Capital	**140.7**	93.2	89.0	157.7	152.1
Property, Plant and Equipment—net	**159.1**	164.5	192.4	196.4	200.0
Total Assets	**452.3**	414.3	468.3	559.8	698.3
Short-term Debt	**6.5**	30.7	7.8	17.4	58.0
Total Long-term Debt	**82.8**	88.8	157.1	215.6	193.5
Shareholders' Equity	**214.0**	169.8	181.9	134.7	122.3
Percent of Debt to Debt Plus Equity	**29.4%**	41.3%	47.5%	63.4%	67.3%

Market for Common Stock
As of March 1, 1985, there were 25,448 holders of record of GAF's outstanding common stock. The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange.

Cash Dividends Per Common Share

	1984	1983
First Quarter	$ —	$.05
Second Quarter	—	—
Third Quarter	.05	—
Fourth Quarter	.05	—

Price Range of Common Stock

	1984 High	1984 Low	1983 High	1983 Low
First Quarter	**$17¾**	**$15**	$16½	$12⅞
Second Quarter	**18⅞**	**15½**	19¾	15¼
Third Quarter	**24⅛**	**17⅝**	16⅞	13⅝
Fourth Quarter	**25¾**	**21**	17	14⅝

Consolidated Statements of Income

(Thousands of Dollars, Except Per Share Amounts) *Year Ended December 31*	1984	1983	1982
Net Sales	**$731,314**	$699,397	$623,236
Costs and Expenses:			
Cost of Products Sold	**548,967**	554,876	518,766
Selling, General and Administrative	**120,139**	116,703	119,065
Total Costs and Expenses	**669,106**	671,579	637,831
Operating Income (Loss)	**62,208**	27,818	(14,595)
Interest Expense	**(9,143)**	(16,280)	(20,031)
Other Income (Expense)—net (Note 2)	**1,553**	(35,727)	38,638
Income (Loss) From Continuing Operations Before Income Taxes	**54,618**	(24,189)	4,012
Income Tax Provision (Benefit) (Note 3)	**13,572**	5,010	(8,170)
Income (Loss) From Continuing Operations	**41,046**	(29,199)	12,182
Income From Discontinued Segments	**—**	—	5,303
Extraordinary Credits (Notes 3 & 4)	**15,656**	25,358	38,744
Net Income (Loss)	**$ 56,702**	$ (3,841)	$ 56,229

Earnings Per Common Share (Note 1):			
Primary:			
Continuing	**$ 2.62**	$ (2.23)	$ .64
Discontinued	**—**	—	.37
Extraordinary	**1.08**	1.76	2.70
Net Income (Loss)	**$ 3.70**	$ (.47)	$ 3.71
Fully Diluted:			
Continuing	**$ 2.30**	$ (2.23)	$ .70
Discontinued	**—**	—	.30
Extraordinary	**.87**	1.76	2.17
Net Income (Loss)	**$ 3.17**	$ (.47)	$ 3.17

See Notes to Consolidated Financial Statements.

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Consolidated Balance Sheets

(Thousands of Dollars) December 31	1984	1983
Assets		
Current Assets		
Cash	$ 16,186	$ 14,909
Short-term investments	53,367	8,559
Accounts receivable, less reserve—1984, $5,426; 1983, $4,709	95,139	98,166
Inventories (Note 1)	83,452	90,751
Other current assets	6,758	8,517
Total Current Assets	254,902	220,902
Property, Plant and Equipment—net (Note 1)	159,115	164,468
Other Assets	38,256	28,897
Total Assets	$452,273	$414,267

Liabilities and Shareholders Equity		
Current Liabilities		
Short-term debt (Note 5)	$ 6,461	$ 30,746
Current portion of long-term debt (Note 5)	10,278	11,516
Accounts payable	57,868	46,009
Accrued liabilities	36,562	37,192
Income taxes payable	2,994	2,284
Total Current Liabilities	114,163	127,747
Long-term Debt Less Current Portion (Note 5)	72,478	77,322
Other Liabilities	51,626	39,394
Shareholders' Equity (Notes 6 & 7)		
Preferred stock, $1 par value per share: authorized 6,000,000 shares; $1.20 convertible series; issued shares—1984, 2,539,658; 1983, 2,549,398; at assigned value of $1.25 per share (preference on liquidation—1984, $66,989)	3,175	3,187
Common stock, $1 par value per share: authorized 25,000,000 shares; issued shares—1984, 14,508,987; 1983, 14,465,701	14,509	14,466
Additional paid-in capital	56,420	55,548
Retained earnings	156,123	103,814
Accumulated translation adjustment	(10,451)	(6,080)
Treasury stock, at cost	(5,770)	(1,131)
Shareholders' Equity	214,006	169,804
Total Liabilities and Shareholders' Equity	$452,273	$414,267

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Financial Position

(Thousands of Dollars) Year Ended December 31	1984	1983	1982
Cash and Short-term Investments, January 1	**$23,468**	$12,377	$13,348
Source (Use) of Funds:			
Income (Loss) From Continuing Operations	**41,046**	(29,199)	12,182
Charges (credits) not affecting funds:			
Depreciation	**19,397**	21,469	20,717
Plant shutdown costs	**—**	26,146	—
Other—net	**4,209**	(1,937)	(17,566)
Total funds from continuing operations	**64,652**	16,479	15,333
Extraordinary Credits, net of credits not affecting funds	**15,656**	25,358	3,744
Total funds from operations	**80,308**	41,837	19,077
Cash proceeds from sales of assets of discontinued businesses	**822**	5,216	81,976
Additions to property, plant and equipment	**(17,900)**	(13,904)	(17,713)
Other working capital items*	**23,951**	(9,507)	(20,091)
Other	**(2,573)**	34,991	12,487
Total source before financing and investment activity	**84,608**	58,633	75,736
Financing and investment activity:			
Decreases in short-term debt	**(24,285)**	(10,554)	(9,648)
Increases in long-term debt	**6,325**	62	801
Decreases in long-term debt	**(12,407)**	(34,800)	(58,794)
Cash dividends	**(4,393)**	(3,686)	(10,132)
Other	**(3,763)**	1,436	1,066
Total use for financing and investment activity	**(38,523)**	(47,542)	(76,707)
Increase (decrease) in cash and short-term investments	**46,085**	11,091	(971)
Cash and Short-term Investments, December 31	**$69,553**	$23,468	$12,377

*Other working capital items:	1984	1983	1982
Accounts receivable	**$ 3,027**	$(13,997)	$ (3,764)
Inventories	**7,299**	4,028	48,873
Other current assets	**1,686**	3,257	(3,025)
Accounts payable	**11,859**	(4,744)	(24,477)
Accrued liabilities	**(630)**	1,057	(37,531)
Income taxes payable	**710**	892	(167)
Net source (use) of funds	**$23,951**	$ (9,507)	$(20,091)

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Shareholders' Equity

(Thousands of Dollars) *Year Ended December 31*	1984	1983	1982
$1.20 Convertible Preferred Stock:			
Balance, January 1	$ 3,187	$ 3,194	$ 3,265
Converted into common stock: 1984—9,740 shares; 1983—5,359 shares; 1982—57,027 shares	(12)	(7)	(71)
Balance, December 31	3,175	3,187	3,194
Common Stock, $1 Par Value Per Share:			
Balance, January 1	14,466	14,459	14,388
Conversion of 5% convertible subordinated notes and preferred stock	43	7	71
Balance, December 31	14,509	14,466	14,459
Additional Paid-in Capital:			
Balance, January 1	55,548	55,008	54,360
Excess of proceeds over cost of treasury common stock sold	128	484	580
Conversion of 5% convertible subordinated notes	669	—	—
Other	75	56	68
Balance, December 31	56,420	55,548	55,008
Retained Earnings:			
Balance, January 1	103,814	111,341	65,244
Net Income (Loss)	56,702	(3,841)	56,229
Cash dividends:			
Preferred stock ($1.20 per share)	(2,958)	(2,970)	(2,980)
Common stock (per share: 1984—$.10; 1983—$.05; 1982—$.50)	(1,435)	(716)	(7,152)
Balance, December 31	156,123	103,814	111,341
Accumulated Translation Adjustment:			
Balance, January 1	(6,080)	—	—
Accounting change at January 1, 1983	—	(1,903)	—
Translation adjustment for the year	(4,371)	(4,177)	—
Balance, December 31	(10,451)	(6,080)	—
Treasury Stock, at cost:			
$1.20 Convertible preferred stock:			
Balance, January 1	(932)	(932)	(932)
Repurchase of odd-lot holdings—27,272 shares	(725)	—	—
Balance, December 31: 1984—103,672 shares; 1983 and 1982—76,400 shares	(1,657)	(932)	(932)
Common stock:			
Balance, January 1	(199)	(1,151)	(1,638)
Repurchased under restricted stock purchase plan: 1984—20,928 shares; 1983—24,013 shares; 1982—65,559 shares	(136)	(152)	(385)
Issued under various stock option and stock purchase plans: 1984—81,569 shares; 1983—144,750 shares; 1982—132,279 shares	1,062	1,104	872
Repurchase of odd-lot holdings—233,073 shares	(4,840)	—	—
Balance, December 31: 1984—196,442 shares; 1983—24,010 shares; 1982—144,747 shares	(4,113)	(199)	(1,151)
Shareholders' Equity	$214,006	$169,804	$181,919

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. A wholly owned captive insurance subsidiary and the 50 percent ownership of a foreign chemical manufacturing company are accounted for by the equity method.

Short-term Investments

Short-term investments are stated at cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (principally average) or market. Inventories at December 31 consist of the following:

Thousands of Dollars	1984	1983
Finished goods	$40,296	$39,297
Work in process	12,891	16,619
Raw materials and supplies	30,265	34,835
Total inventories	$83,452	$90,751

Property, Plant and Equipment and Related Depreciation

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment additions.

Property, Plant and Equipment at December 31 consist of the following:

Thousands of Dollars	1984	1983
Land and land improvements	$ 15,049	$ 15,069
Buildings and building equipment	52,558	54,385
Machinery and equipment	200,658	211,049
Construction in progress	10,182	5,714
Total	278,447	286,217
Less Accumulated Depreciation	119,332	121,749
Property, Plant and Equipment—net	$159,115	$164,468

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired prior to 1970 in the amount of $5,744,000 is included in Other Assets in the accompanying Consolidated Balance Sheets and is not being amortized as it is believed to have continuing value.

Deferred Income Taxes

Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for income tax purposes.

Investment Tax Credits

The Company accounts for investment tax credits as a reduction of the provision for United States income tax (the flow-through method).

Reclassifications

Certain amounts in the 1983 and 1982 financial statements and footnotes thereto have been reclassified to conform with the 1984 presentation.

Foreign Currency Translation

Effective January 1, 1983, the Company adopted Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Prior years have not been restated as the effect is not material.

Research and Development

Research and development expenses are charged to operations as incurred and amounted to $8.7 million in 1984, $8.0 million in 1983 and $6.6 million in 1982.

Earnings Per Common Share

Primary earnings per common share are based on the weighted average number of common and common equivalent shares outstanding during each year after giving appropriate effect for preferred stock dividends. Weighted average shares for computing primary earnings per share were (in thousands) 14,510 for 1984, 14,442 for 1983 and 14,338 for 1982.

Fully diluted earnings per share are based on the weighted average number of common and common equivalent shares outstanding and the assumed conversion of convertible securities outstanding after appropriate adjustment for interest on convertible notes. Where the effect of the assumed conversion on net income would be anti-dilutive, primary and fully diluted earnings per share are stated the same. Weighted average shares for computing fully diluted earnings per share were (in thousands) 17,993 for 1984, 17,907 for 1983 and 17,850 for 1982.

2. Other Income (Expense)

A summary of Other Income (Expense)—net follows:

Thousands of Dollars For the Year	1984	1983	1982
Equity in income of investees	$5,125	$ 4,705	$ 5,554
Interest income	4,151	3,531	5,550
Plant shutdown costs	—	(26,146)	—
Proxy contest and related expenses	—	(10,042)	—
Legal and other expenses related to products no longer sold	(4,501)	(3,594)	(803)
Cash settlement of antitrust lawsuit with Eastman Kodak	—	—	9,500
Reversal of pension reserves	—	—	7,000
Sales of tax benefits	—	—	6,454
Adjustment of insurance reserves	(2,400)	—	3,483
Office relocation expenses	—	(3,488)	—
Miscellaneous—net	(822)	(693)	1,900
Other Income (Expense)—net	$1,553	$(35,727)	$38,638

Equity in Income and Net Assets of Investees

Financial data for investments which are accounted for by use of the equity method follows:

Thousands of Dollars For the Year	1984		1983	
Income Statement Data	Joint Venture*	Captive Insurance Subsidiary	Joint Venture*	Captive Insurance Subsidiary
Revenues	$45,613	$3,125	$39,773	$ 4,240
Costs and Expenses	35,102	3,007	32,418	4,876
Operating Income (Loss)	10,511	118	7,355	(636)
Income for the Year	6,735	1,291	6,994	362
GAF Equity Therein	3,834	1,291	4,343	362
December 31				
Balance Sheet Data				
Current Assets	$18,997	$1,732	$ 9,893	$ 3,993
Noncurrent Assets	12,501	7,878	17,434	6,706
Total Assets	31,498	9,610	27,327	10,699
Current Liabilities	9,615	38	6,780	34
Noncurrent Liabilities	1,175	4,918	4,253	7,303
Total Liabilities	10,790	4,956	11,033	7,337
Net Assets	20,708	4,654	16,294	3,362
GAF Equity Therein	8,898	4,654	7,519	3,362

*Joint Venture data presented above pertains to GAF/Hüls Chemie, GmbH, a joint venture between GAF Corporation and Chemische Werke Hüls, which operates a chemical manufacturing plant in West Germany.

3. Income Taxes

The Income Tax Provision (Benefit) applicable to continuing operations consists of the following:

Thousands of Dollars For the Year	1984	1983	1982
Federal	$ 4,932	$ —	$(13,403)
Foreign	5,835	5,310	5,233
State	2,805	(300)	—
Income Tax Provision (Benefit)	$13,572	$5,010	$ (8,170)

Federal taxes in 1982 include $2.7 million related to Deferred Taxes. The differences between the income tax provision (benefit) computed by applying the statutory federal income tax rate to pre-tax income (loss) and the actual tax provision (benefit) applicable to continuing operations are as follows:

Thousands of Dollars For the Year	1984	1983	1982
Statutory Provision (Benefit)	$25,125	$(11,127)	$ 1,846
Adjustments:			
Operating loss carryforward (carryback)	—	19,674	(8,458)
Investment Tax Credits	(10,700)	—	—
Impact of Foreign Operations	(1,572)	(2,038)	(978)
State and Local Taxes	1,515	—	—
Other	(796)	(1,499)	(580)
Income Tax Provision (Benefit)	$13,572	$ 5,010	$(8,170)

At December 31, 1984, the Company had net operating loss carryforwards available to offset future income subject to tax of approximately $65 million for financial reporting purposes, of which approximately $60 million relates to domestic operations. The comparable amount from 1983 was approximately $90 million, of which approximately $80 million related to domestic operations. For tax purposes, the Company has investment tax credit carryforwards of $10.7 million, most of which were generated prior to 1984. These credits were utilized for financial statement purposes during 1984.

As of December 31, 1984, provision had not been made for United States income taxes on approximately $22 million of unremitted earnings of consolidated foreign subsidiaries and the Company's 50% owned joint venture, because it is management's intention to reinvest such earnings indefinitely. Any United States taxes payable on foreign earnings which may be remitted in the future are expected to be reduced by the combined effects of net operating loss carryforwards and foreign tax credits.

Extraordinary Credits for 1984, 1983 and 1982 include $1,830,000, $3,527,000 and $3,744,000, respectively, representing the income tax benefit from the utilization of foreign operating loss carryforwards. The 1984 Extraordinary Credits also include an income tax benefit of $5,479,000 from the utilization of federal and state operating loss carryforwards. Future utilization of the operating loss carryforwards for United States income tax purposes may require the restoration of applicable deferred income tax amounts.

4. Benefit Plans

In September, 1982, the Board of Directors of the Company authorized the termination of the Retirement Plan for Salaried Employees (Plan), a defined benefit plan, effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan, a defined contribution plan, for eligible salaried employees effective January 1, 1983. As a result of the termination, transfers of funds were made to the Company in November, 1983 and during 1984 in the total amount of $65,178,000. Such reversion of the Plan's residual assets to the Company created Extraordinary Credits of $8,347,000, $21,831,000 and $35,000,000 for the years 1984, 1983 and 1982, respectively.

Under the new GAF Capital Accumulation Plan, Company contributions consist of a basic contribution of three percent of the compensation of participants for the plan year together with matching contributions, up to an additional four percent as specified in the plan, for those participants who have elected to make voluntary contributions to the plan. Each participant is fully vested at all times in the balance in each of his or her accounts in the plan. The aggregate contributions made by the Company to the plan and charged to operations in 1984 and 1983 were $2,896,000 and $3,029,000, respectively.

The retirement plans for hourly employees and Texas City facility employees are noncontributory defined benefit plans. Company policy is to fund accrued pension expense. Pension expense charged to operations was $289,000 in 1984, $430,000 in 1983 and $873,000 in 1982. A comparison of the accumulated plan benefits and plan net assets for these plans is presented below:

Thousands of Dollars	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$83,625	$81,453
Nonvested	2,461	2,561
Total	$86,086	$84,014
Plan assets available for benefits	$92,626	$91,997
Assumed rate of return	8%	7%
Plan valuation date	1/1/84	1/1/83

In 1984, the Company announced a proposed spin-off/termination involving its Retirement Plan for Hourly Employees, pursuant to which the Company purchased an annuity contract approximating $68 million covering the benefits accrued to September 1, 1984, for participants of the plan. Assets were sufficient to provide for the accrued benefits of all hourly participants. Pursuant to governmental regulations, excess assets were then "spun-off" to a new plan for inactive members. The inactive plan was then terminated. Following government approvals of the spin-off/termination, the excess assets, estimated at over $17 million, will revert to the Company. The Company will contribute to the plan in future years for active employees to meet liabilities as they accrue.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits from continuing operations ($3.7 million in 1984) is recognized as expense as claims are paid.

As part of the 1977 and 1980 discontinuance programs, the Company provided for benefits, primarily health and life insurance of certain retired employees, of discontinued businesses. The balance of the liability for such future benefits at December 31, 1984 and 1983 was $18 million and $19.9 million, respectively.

5. Debt and Dividend Restrictions

Information regarding short-term debt is as follows:

Thousands of Dollars	1984	1983	1982
As of December 31:			
Balance outstanding	$ 6,461	$33,746	$ 7,800
Weighted average interest rate	8.0%	10.7%	10.0%
For the Year:			
Average month-end short-term debt outstanding	$17,915	$73,931	$13,368
Maximum month-end short-term debt outstanding	$45,789	$95,517	$17,954
Weighted average month-end interest rate	11.4%	10.1%	13.5%

At December 31, 1984, the Company had unused short-term lines of credit aggregating approximately $12.6 million (in addition to the revolving credit facility discussed below). The short-term lines of credit are maintained with banks on terms which expire on various dates, but are generally renewable. Borrowings generally bear interest at or near the prime commercial lending rate.

Long-term debt at December 31, 1984 and 1983 was as follows:

Thousands of Dollars	1984	1983
9½% senior notes due March 31, 1987, with annual scheduled principal repayments	$17,100	$23,600
8½% senior notes due January 15, 1992, with annual scheduled principal repayments	19,300	21,900
Industrial revenue bonds with various interest rates and maturity dates to 2009. Certain assets are pledged as collateral thereto.	22,981	18,243
Obligation under capital lease (Note 10)	10,319	11,113
5% convertible subordinated notes due April 1, 1994, with optional annual repayments beginning April 1, 1990	7,500	8,200
Other	5,556	5,782
Total	82,756	88,838
Less current portion	10,278	11,516
Long-term debt, less current portion	$72,478	$77,322

The 5% convertible subordinated notes are convertible into shares of common stock at any time at a conversion price of $22.50 per share (subject to antidilution adjustments in specified circumstances). During 1984, $700,000 of notes were converted into 31,111 shares of common stock.

The Company in 1984 entered into a $100 million revolving credit facility with a consortium of eight banks, effective as of June 1, 1984, and terminating December 31, 1986. However, as a result of improved cash flow, the Company in the third quarter voluntarily reduced this credit facility to $50 million. Interest on the borrowings is at the prime rate or a rate based on the London Interbank Offer Rate. Under the agreement, a commitment fee of ½ of 1% per annum is charged on the daily average unused portion of the commitments, and a facility fee of ½ of 1% per annum is charged on the commitments, whether used or unused. At December 31, 1984, there were no borrowings outstanding under this agreement.

The new agreement includes restrictions on the payment of cash dividends on GAF common stock, generally based upon 50% of net income (excluding certain items) subsequent to April 1, 1984, less all cash dividends and certain other special payments made after April 1, 1984. As of December 31, 1984, $16.1 million of retained earnings were available under this agreement for future cash dividends on common stock and repurchases of stock except repurchases to fulfill requirements of employee stock option and stock purchase plans. The agreement and other loan agreements contain provisions which, among other things, require the maintenance of minimum working capital and net worth and limit the amount of debt and capital expenditures, restrict the right to sell capital assets, engage in mergers or consolidations and to incur certain contingent obligations.

The aggregate maturities of long-term debt for the next five years are as follows:

Thousands of Dollars	
1985	$10,278
1986	$10,007
1987	$12,735
1988	$ 3,982
1989	$ 5,596

6. Capital Stock

The $1.20 convertible preferred stock, dividends on which are cumulative, is convertible at any time into common stock at the rate of 1.25 shares of common stock for each share of preferred. The Company, at any time at its option, may redeem all or any of the preferred stock at $27.50 per share. In January, 1985, the Company called for redemption 1,138,000 shares of the $1.20 convertible preferred stock at the redemption price of $27.50 per share plus accrued dividends of $.24 per share from January 1, 1985 through the redemption date of March 13, 1985. Holders of shares called for redemption have the right to convert to common stock at any time prior to the close of business on the redemption date. The shares called for redemption were selected by lot.

The shares of common stock reserved for issuance at December 31, 1984 and 1983 were as follows:

Shares Reserved	1984	1983
Conversion of $1.20 convertible preferred stock	3,044,983	3,091,248
Conversion of 5% convertible subordinated notes	333,333	364,444
Issuance under stock option and purchase plans	1,984,933	636,362
Total Shares Reserved	5,363,249	4,092,054

7. Stock Option and Stock Purchase Plans

In 1984, the Company adopted the 1984 Stock Option Plan which provides for the granting of incentive and nonqualified stock options to key employees of the Company and its subsidiaries to purchase common stock of the Company at not less than 100 percent of the fair market value at the date of grant. Under the terms of the plan, options for 800,000 shares of common stock may be granted from time to time until April 30, 1989. During 1984, 356,500 options were granted, of which 349,800 were outstanding at December 31, 1984, at option prices ranging from $17.125 to $23.75. There were 450,200 options available for grant at December 31, 1984. The term of each option is five years and sixty days. Options may not be exercised during the first year after the date of grant, but thereafter, options become exercisable as to 20% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

The Company's 1975 nonqualified stock option plan provided for the granting of 800,000 options to key employees to purchase common stock of the Company at not less than 100 percent of the fair market value at the date of grant. Options granted through April 30, 1984 are exercisable one year after grant and expire after 10 years. Options granted after April 30, 1984 are subject to the same terms and conditions as options issued under the 1984 Stock Option Plan.

These plans provide for stock appreciation rights, wherein an option holder may request "surrender" of the option in exchange for payment (in cash or stock) by the Company of the difference between the option and market prices on the date of surrender. The requested surrender of an option may be granted or denied at the discretion of the Executive Compensation Committee of the Board of Directors. The plans also provide for limited stock appreciation rights permitting the option holder to surrender exercisable options in the event of a tender or exchange offer for the Company's common stock made by someone other than the Company.

The following is a summary of certain information pertaining to the 1975 stock option plan.

Shares	1984	1983	1982
Outstanding January 1	254,400	404,650	574,150
Granted	124,100	—	—
Exercised	(52,000)	(144,750)	(133,000)
Terminated	(500)	(5,500)	(36,500)
Outstanding December 31	326,000	254,400	404,650
At December 31			
Exercisable	201,900	254,400	404,650
Available for grant	—	124,000	118,500
Option Price Range Per Share			
Outstanding	$ 9.625-	$ 9.625-	$ 9.625-
	$ 23.75	$14.875	$14.875
Exercised	$ 9.625-	$ 9.625-	$ 9.625-
	$14.875	$14.875	$11.875

In April, 1984, the shareholders of the Company approved the 1984 Employee Stock Purchase Plan covering 600,000 shares of common stock. The plan provides for grants of options to purchase shares of common stock on a nondiscriminatory basis to all eligible employees of the Company and its subsidiaries. No options to purchase shares of common stock under the plan may be granted after April 30, 1989. The price at which shares may be purchased is the lesser of (i) 85% of the fair market value on the date of grant or (ii) 85% of the fair market value on the date of purchase. As of December 31, 1984, 18,957 shares of common stock had been issued under the plan.

Under the provisions of the Company's 1969 restricted and unrestricted stock purchase plan, 650,000 shares of common stock were authorized for sale to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50 percent and 80 percent, respectively, of the closing market price preceding the date of grant. Under certain conditions, the Company has the right to repurchase restricted shares of common stock at the original selling price. At December 31, 1984, there were 277,890 shares available for sale under this stock purchase plan. The excess of quoted market value at the date of grant over the aggregate sales price for restricted shares sold is amortized by charges to income and credits to additional paid-in capital over the restricted period.

8. Business Segments Information

Millions of Dollars For the Year	1984	1983	1982
Sales			
Chemicals*	$357.2	$323.2	$294.4
Building Materials	370.8	373.2	328.8
Broadcasting***	3.3	3.0	—
Consolidated Sales	$731.3	$699.4	$623.2
Division Income (Loss)			
Chemicals**	$ 79.0	$ 64.6	$ 55.4
Building Materials	10.9	(34.5)	(26.3)
Broadcasting***	0.7	0.5	—
Total	90.6	30.6	29.1
Corporate:			
Operating Expenses	(18.5)	(22.7)	(29.4)
Interest Expense	(9.1)	(16.3)	(20.0)
Other Income (Expense)—net	(8.4)	(15.8)	24.3
Net Corporate Expenses	(36.0)	(54.8)	(25.1)
Income (Loss) From Continuing Operations Before Income Taxes	$ 54.6	$ (24.2)	$ 4.0
Identifiable Assets			
Chemicals**	$203.8	$198.1	$199.8
Building Materials	158.6	164.1	176.8
Corporate and other	89.9	52.1	91.7
Total Assets	$452.3	$414.3	$468.3
Additions to Property, Plant and Equipment			
Chemicals	$ 9.6	$ 5.2	$ 7.7
Building Materials	8.0	8.3	9.1
Corporate and other	0.3	0.4	0.9
Total	$ 17.9	$ 13.9	$ 17.7
Depreciation			
Chemicals	$ 11.1	$ 10.0	$ 10.6
Building Materials	7.0	9.3	8.2
Corporate and other	1.3	2.2	1.9
Total	$ 19.4	$ 21.5	$ 20.7

*Chemicals sales are net of intersegment sales of $23.2 million, $20.9 million and $16.1 million for 1984, 1983 and 1982, respectively. Intersegment sales are recorded at the same prices charged to unaffiliated customers.

**Chemicals Division income and identifiable assets include GAF's 50% equity in the income and assets of GAF-Huls Chemie, GmbH (see Note 2).

***Classified as a discontinued business in 1982.

9. Geographic Information

Millions of Dollars For the Year	1984	1983	1982
Domestic Operations:			
Net Sales*	$649.9	$627.9	$557.4
Operating Income (Loss)	$ 49.2	$ 16.0	$(23.1)
Other Income (Expense)	(14.9)	(60.0)	11.5
Income (Loss) From Continuing Operations Before Income Taxes	$ 34.3	$(44.0)	$(11.6)
Identifiable Assets	$404.8	$375.0	$432.0
Foreign Operations:			
Net Sales**	$ 81.4	$ 71.5	$ 65.8
Operating Income (Loss)	$ 13.0	$ 11.8	$ 8.5
Other Income (Expense)***	7.3	8.0	7.1
Income (Loss) From Continuing Operations Before Income Taxes	$ 20.3	$ 19.8	$ 15.6
Identifiable Assets***	$ 47.5	$ 39.3	$ 36.3

*Domestic sales are net of transfers between geographic areas of $34.9 million, $29.0 million and $26.4 million, respectively.

**Foreign sales are net of transfers between geographic areas of $7.3 million, $9.4 million and $9.1 million, respectively.

***Foreign Operations income and identifiable assets include GAF's 50% equity in the income and assets of GAF/Hüls Chemie, GmbH (see Note 2).

10. Commitments and Contingencies

The lease for the Company's headquarters in Wayne, N.J., is accounted for as a capital lease and is included in Property, Plant and Equipment—net at December 31, 1984 and 1983 in the amount of $7,546,000 and $7,987,000, respectively. The related present value of future net minimum lease payments is reflected as long-term debt (see Note 5), and the amortization expense associated with the capital lease is included in depreciation expense. The Company also has operating leases for transportation and data processing equipment and for other buildings.

Future minimum lease payments for properties which are held under long-term noncancelable leases as of December 31, 1984 are as follows:

Thousands of Dollars Minimum Payments	Capital Lease	Operating Leases
1985	$ 1,606	$3,280
1986	1,544	989
1987	1,482	414
1988	1,419	209
1989	1,356	116
Later Years	8,600	19
Total minimum payments	16,007	$5,027
Less interest included above	5,688	
Present value of net minimum lease payments	$10,319	

At December 31, 1984, there were various lawsuits pending against the Company relating to matters arising from its business, including approximately 18,100 involving bodily injury claims relating to the exposure to asbestos or asbestos-containing products no longer sold by the Company. The Company is also named as a defendant in approximately 50 asbestos property damage lawsuits by school districts and other owners of buildings seeking to recover the cost of removal of asbestos insulation and other asbestos products. The full cost of indemnity and defense of all the asbestos bodily injury and property damage lawsuits is being paid by the Company's insurance carriers, subject to reservations of rights. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the Company's consolidated financial position.

11. Supplementary Financial Information

Thousands of Dollars For the Year	1984	1983	1982
Maintenance and repairs	$41,796	$40,822	$41,233
Rentals—operating leases	5,601	6,954	6,586

Auditors' Report

ARTHUR ANDERSEN &CO.

101 Eisenhower Parkway
Roseland, New Jersey 07068

To the Shareholders and Board of Directors of
GAF Corporation:

We have examined the consolidated balance sheet of GAF Corporation (a Delaware corporation) and subsidiaries as of December 31, 1984, and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the years ended December 31, 1983 and 1982, were examined by other auditors whose report thereon dated February 17, 1984, expressed an unqualified opinion on those statements.

In our opinion, the 1984 financial statements referred to above present fairly the financial position of GAF Corporation and subsidiaries as of December 31, 1984, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

February 11, 1985

Supplementary Data (Unaudited)

Financial Reporting and Changing Prices

The Company's financial statements are presented on an historical cost basis and, as such, are not intended to measure the effects of changing prices in an inflationary economy. In accordance with the Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," as amended, the following supplementary information is presented to reflect the estimated impact of inflation on the Company's income from continuing operations.

The Company's historical financial data have been adjusted for the effects of changes in specific prices (current cost basis) on inventories and property, plant and equipment. Plant and equipment current costs were estimated by adjusting historical costs by externally generated industrial price indexes. Inventory costs were developed using current manufacturing costs. Inventory costs included in the Cost of Products Sold were determined on average current costs during the year. Depreciation expense was adjusted based on the restated asset values using the same estimated useful lives and depreciation rates used in the primary financial statements.

Adjusted income from continuing operations of $25.9 million compares to reported earnings from continuing operations of $41 million, reflecting the increased cost of replacing assets during inflationary periods. This hypothetical decrease in income is due to the higher depreciation expense on property, plant and equipment and higher costs of inventories sold. Sales and other costs and expenses, including income taxes, have not been adjusted. This points out the higher tax burden on companies during inflationary periods, as the effective tax rate for GAF on the adjusted income statement is 34.4% compared with a rate of 24.8% on the historical financial statements.

The management of the Company cautions the reader in interpreting this supplementary data due to the required use of numerous assumptions and estimates in preparing the information. This data is therefore only an indicator of the effects of inflation and does not provide a precise measurement.

Consolidated Statement of Income From Continuing Operations Adjusted for Changing Prices (Unaudited)

Thousands of Dollars *For the Year Ended December 31, 1984*	As Reported in the Primary Statements (Historical Cost)	Adjusted for Changes in Specific Prices (Current Cost)
Net Sales	$731,314	$731,314
Cost of Products Sold*	532,096	536,245
Depreciation	19,397	30,379
Other Expenses—net	116,060	116,060
Interest Expense	9,143	9,143
Income Taxes	13,572	13,572
Income from Continuing Operations	$ 41,046	$ 25,915
Purchasing power gain on net monetary liabilities		$ 1,930
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year**		$ 14,067
Effect of increase in the general price level		12,682
Increase in specific prices over (under) effect of increase in the general price level		$ 1,385

*Excludes $16,871 depreciation expense included in Cost of Products Sold in the primary financial statements.

**The estimated current cost of net Property, Plant and Equipment and Inventories was $224,509 and $84,534, respectively, at December 31, 1984.

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Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (In Average 1984 Dollars)

Thousands of Dollars, Except Per Share Amounts	1984	1983	1932	1981	1980
Net Sales	$731,314	$729,191	$670,709	$768,105	$853,686
Current cost information:					
Income (loss) from continuing operations	25,915	(54,175)	(11,813)	(55,674)	(18,390)
Income (loss) per common share—primary	1.58	(3.96)	(1.04)	(4.22)	(1.36)
Increase in specific prices of inventory and property over (under) effect of increase in general price level	1,385	(8,159)	4,203	(27,968)	1,214
Net assets at year-end	276,583	256,309	290,344	264,818	285,662
Other data, adjusted for general inflation:					
Purchasing power gain on net monetary liabilities	1,930	3,313	6,609	24,823	34,722
Dividends per common share	.10	.05	.54	.92	.97
Year-end market price per common share	24.16	17.05	14.90	15.89	16.10
Average Consumer Price Index	311.1	298.4	289.1	272.4	246.8

Quarterly Financial Data (Unaudited)

	1984 by Quarter				1983 by Quarter			
Millions of Dollars Except Per Share Amounts	First	Second	Third	Fourth	First	Second	Third	Fourth
Net Sales	$169.9	$191.3	$203.6	$166.3	$163.6	$184.1	$184.0	$167.7
Cost of Products Sold	129.8	143.8	151.1	124.3	131.5	144.3	142.3	136.8
Gross Profit	$ 40.1	$ 47.5	$ 52.7	$ 42.0	$ 32.1	$ 39.8	$ 41.7	$ 30.9
Income (Loss) From Continuing Operations Before Income Taxes	$ 10.1	$ 15.5	$ 17.0	$ 12.0	$ 3.6	$ 3.0	$ 7.3	$ (38.1)
Income Tax Provision	2.7	3.6	4.9	2.4	1.4	1.2	1.5	0.9
Income (Loss) From Continuing Operations	7.4	11.9	12.1	9.6	2.2	1.8	5.8	(39.0)
Extraordinary Credits	6.2	3.2	1.5	4.8	1.1	0.8	1.1	22.4
Net Income (Loss)	$ 13.6	$ 15.1	$ 13.6	$ 14.4	$ 3.3	$ 2.6	$ 6.9	$ (16.6)
Earnings Per Common Share*								
Primary								
Continuing	$ .46	$ .77	$ .79	$ .61	$ .10	$ .07	$ .35	$(2.74)
Extraordinary	.42	.22	.10	.33	.07	.06	.08	1.54
Net Income (Loss)	$ .88	$ .99	$ .89	$ .94	$ .17	$ .13	$ .43	$(1.20)
Fully Diluted								
Continuing	$ .42	$ .67	$ .68	$ .54	$ .10	$ .07	$ .33	$(2.74)
Extraordinary	.34	.18	.08	.27	.07	.06	.06	1.54
Net Income (Loss)	$ .76	$ .85	$ .76	$ .81	$ .17	$ .13	$ .39	$(1.20)

*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the interim periods.

Board of Directors:

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer,
GAF Corporation

Daniel T. Carroll
Chairman of the Board
and President,
The Carroll Group, Inc.
(management consulting)

Dr. Jacob E. Goldman
Chairman of the Board,
Cauzin Systems inc.
(manufacturer of personal
computer accessories)

Sanford Kaplan
Private investor and consultant

William P. Lyons
President, William P.
Lyons & Co., Inc.
(investment banking
and financial consulting)

Scott A. Rogers, Jr.
Consultant

Edward E. Shea
Senior Vice President,
General Counsel
and Secretary, GAF Corporation

James T. Sherwin
Vice Chairman
and Chief Administrative Officer,
GAF Corporation

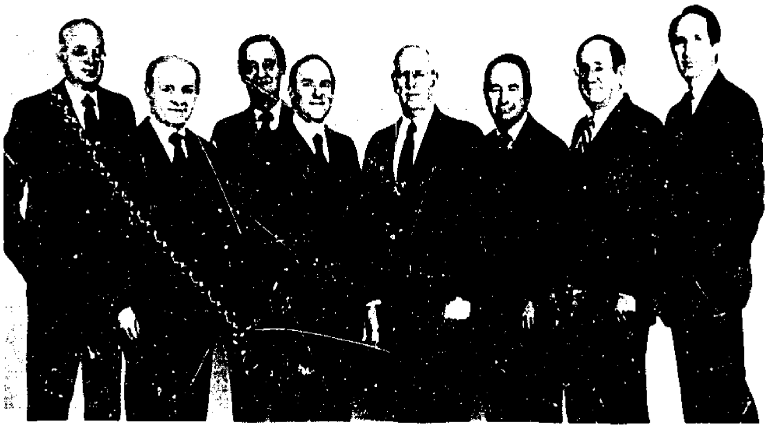
Harold C. Simmons
President and Director,
Contran Corporation
(diversified holding company)

William Spier
Private investor

Joseph D. Tydings
Partner, Finley, Kumble,
Wagner, Heine, Underberg,
Manley & Casey (attorneys)

Robert Wilson
Chairman of the Board,
Wilson & Chambers, Inc.
(private investing)

*Board members pictured at Company's Fontana, California roofing facility
Top row (left to right): Joseph D. Tydings, Daniel T. Carroll, William P. Lyons, Robert C. Wilson, Harold C. Simmons, and William Spier. Bottom row (left to right): Scott A. Rogers, Jr., Edward E. Shea, Samuel J. Heyman, James T. Sherwin, Jacob E. Goldman, and Sanford Kaplan*



*Corporate officers pictured at Company's Wayne, New Jersey headquarters
(left to right): Raymond J. Lacroix, Edward E. Shea, Bernard L. Kapell, James T. Sherwin, Carl R. Eckardt, Matthew L. Gooby, John A. Brennan, and James E. Cunningham. Not pictured: Samuel J. Heyman*

Officers

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

James T. Sherwin
Vice Chairman and Chief
Administrative Officer

Edward E. Shea
Senior Vice President,
General Counsel and Secretary

Raymond J. Lacroix
Senior Vice President and
Chief Financial Officer

John A. Brennan
Senior Vice President,
Building Materials Division

Carl R. Eckardt
Senior Vice President,
Chemicals Division

James E. Cunningham
Vice President,
Human Resources

Matthew L. Gooby
Vice President,
Management Information

The World of GAF

Corporate Offices

1361 Alps Road
Wayne, New Jersey 07470

Domestic

GAF Corporation's plants, research laboratories and sales offices are located throughout the United States.

Chemicals

Huntsville, Alabama
Calvert City, Kentucky
Hagerstown, Maryland
Annapolis, Missouri
Bound Brook, New Jersey
Linden, New Jersey
Blue Ridge Summit, Pennsylvania
Seadrift, Texas
Texas City, Texas
Pembine, Wisconsin

Building Materials

Mobile, Alabama
Fontana, California
Tampa, Florida
Savannah, Georgia
Mount Vernon, Indiana
Baltimore, Maryland
Millis, Massachusetts
Minneapolis, Minnesota
Chester, South Carolina
Dallas, Texas
Erie, Pennsylvania

International

GAF Corporation's major marketing and service facilities are located throughout the world.

Sydney, Australia
Melbourne, Australia
Vienna, Austria
Sint-Niklaas, Belgium
São Paulo, Brazil
Mississauga, Ontario, Canada
St. Laurant, Quebec, Canada
Paris, France
Frechen, West Germany
Esher, Great Britain
Manchester, Great Britain
Milan, Italy
Tokyo, Japan
Mexico City, Mexico
Schiedam, Netherlands
Auckland, New Zealand
Carolina, Puerto Rico
Singapore, Republic of Singapore
Sandton, South Africa
Barcelona, Spain
Johanneshov, Sweden
Zug, Switzerland

Subsidiary:

GAF Insurance Ltd.
Hamilton, Bermuda

Affiliate:

GAF/Hüls Chemie GmbH
Marl, West Germany

GAF Broadcasting Company, Inc.

New York, New York

Shareholder Information

Annual Meeting

The 1985 Annual Meeting of Shareholders will be held at 10 a.m., Monday, April 29, at Chase Manhattan Bank auditorium, One Chase Manhattan Plaza, New York, NY 10081.

Form 10K

A copy of the Company's Annual Report on Form 10K as filed with the Securities and Exchange Commission may be obtained, free of charge, by writing to:
GAF Corporation
1361 Alps Road
Wayne, NJ 07470

Dividend Reinvestment Service

GAF offers holders of its common and preferred stock the opportunity to buy additional shares through an automatic dividend reinvestment service, administered by Morgan Guaranty Trust Company of New York. For further details contact:
Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015
(212) 483-2323

GAF's common and preferred stocks are listed on the New York Stock Exchange (NASDAQ symbols: "GAF" and "GAFPr").

Transfer Agent

Stock Transfer Agent and Registrar:
Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015

GAF Corporation
1361 Alps Road
Wayne, NJ 07470